

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, PA 17120

Pennsylvania American Water Company

Public Meeting of December 21, 2023
3035217-AUD
Docket No. D-2022-3035217

MOTION OF VICE CHAIR KIMBERLY BARROW

Before the Commission for consideration is the Bureau of Audits' (Audits) Management and Operations Audit of Pennsylvania American Water Company (PAWC or Company). Audits staff analyzed and evaluated management performance in twelve functional areas at the Company and proposed 31 recommendations. The audit, *inter alia*, identified certain areas of PAWC's operations as needing moderate improvement including its cost allocations and affiliated interest. The audit indicated that these areas offer the potential for increased effectiveness and/or reduced costs and should be the focus of the Company's implementation efforts.

PAWC's October 2023 Implementation Plan wholly accepted 23 and partially accepted eight of Audits' 31 recommendations. PAWC accepted, in part, Audits' recommendation that the Company file a new or amended affiliated interest agreement (AIA)¹ that accurately reflects the current company structure and the intercompany transactions occurring between PAWC and American Waterworks Service Company, Inc. (Service Company).² Audits noted it believes that PAWC's AIA on file with the Commission has multiple deficiencies, is more generic in nature, and does not adequately identify the services provided by/to PAWC and the Service Company. Audits further noted that a number of changes have occurred since the AIA was filed in 1989 that warrant an update.

It is important to note that Audits has been making this recommendation since the 2008 consultant-led management audit.³ PAWC has stated that it does not believe the AIA needs to be updated. Instead, it will provide an updated list of existing services and nomenclature.

¹ As a certificated public utility in Pennsylvania, PAWC is required to comply with Section 2102 of the Public Utility Code, 66 Pa. C.S. § 2102, which governs public utility contracts with affiliated interests.

² PAWC is a wholly owned subsidiary of American Water Works Company Inc. (American Water), a holding company with various regulated and nonregulated subsidiaries. American Water owns and operates regulated water and wastewater subsidiaries in 14 states, including Pennsylvania. PAWC regularly provides and/or receives services from various affiliates including American Water Capital Corp and the Service Company. The AIA highlights the nature and extent of transactions between PAWC and its affiliates.

³ The 2008 Consultant-led management audit (Docket No. D-06MGT029) recommendation led PAWC to file an informal updated list of services as a response to the 2011 management efficiency investigation (Docket No. D-2010-2192659). The 2014 management audit (Docket No. D-2014-2430603) made a similar recommendation for PAWC to update its AIA. The 2018 management efficiency investigation (Docket No. D-2018-2646503) found no changes with PAWC's filed AIA.

While I acknowledge the Company's provision of an updated list of services, because this matter continues to be an issue in the current and prior management audits, I believe this matter should be referred to the Commission's Bureau of Investigation and Enforcement for any further action as deemed warranted by the Bureau of Investigation and Enforcement's review of this issue.

THEREFORE, I MOVE THAT:

1. The Bureau of Audits Management and Operations Audit Report (Report) of the Pennsylvania American Water Company (PAWC) and PAWC's Implementation Plan be made public.
2. The recommendation in the Report for PAWC to file a new or amended affiliated interest agreement that accurately reflects the current company structure and the intercompany transactions occurring between PAWC and American Waterworks Service Company, Inc., be referred to the Commission's Bureau of Investigation and Enforcement for any further action as deemed warranted based on the Bureau of Investigation and Enforcement's review.
3. A Secretarial Letter be issued directing PAWC to proceed with its Implementation Plan regarding all other aspects of the Plan and submit progress reports on the Implementation Plan annually by December 1st for the next three years.
4. That the Office of Special Assistants draft an opinion and order consistent with this Motion.

December 21, 2023
Date



Kimberly Barrow, Vice Chair